

Message Text

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SUBJECT: ARAMCO-SAUDI NEGOTIATIONS

1. FOLLOWING ARE HIGHLIGHTS OF DEPUTY SECRETARY ROBINSON'S AUGUST 31 CONVERSATION WITH ARAMCO REPRESENTATIVES HEDLUND, (EXXON) AND FOLMAR (TEXACO). MEMCON BEING POUCHED.
2. COMPANY REPS MET YAMANI IN GENEVA AUGUST 5 - 10 AND REACHED TENTATIVE AGREEMENT ON MAIN ELEMENTS OF SETTLEMENT. AGREEMENT SUBJECT TO RATIFICATION BY SAUDI LEADERSHIP, AND COMPANY REPS CONSEQUENTLY UNSURE WHETHER TERMS HAVE FINAL SAUDI APPROVAL.
3. ON VOLUME OF LIFTINGS, COMPANIES COMMITTED THEMSELVES TO TAKE 7 MILLION BARRELS PER DAY, PLUS OR MINUS ABOUT
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5 PERCENT. SAUDIS RETAIN SOVEREIGN RIGHT TO SET PRICE

AND MAY CHANGE PRICE AT ANY TIME, BUT NOT RETROACTIVELY. SAUDIS COULD UNILATERALLY RAISE PRICE IF THEY FELT IT APPROPRIATE, FOR EXAMPLE, WHEN OPEC DECIDED ON A PRICE INCREASE. OTHERWISE, PRICE WOULD BE ADJUSTED BASED ON THREE MONTHS MOVING AVERAGE OF PRICE SAUDIS CHARGE TO OTHER BUYERS. COMPANIES INSISTED ON THIS FEATURE TO ENSURE THAT PRICE THEY PAID WAS ROUGHLY COMPETITIVE. ON UNDERLIFTINGS, HALF OF DIFFERENCE BETWEEN ANY UNDERLIFT-

INGS AND MINIMUM LIFTINGS PER AGREEMENT WOULD BECOME A LOSS OF ENTITLEMENT FOR THE FOLLOWING THREE YEARS; OTHER HALF WOULD BE SUBJECT TO PAYMENT OF A FINANCIAL PENALTY. IN ADDITION, SAUDIS WOULD HAVE RIGHT TO SELL UNDERLIFTINGS ELSEWHERE.

4. ALL EXPENSES OF PRODUCTION WOULD BE PAID FOR BY PETROMIN. COMPANIES WOULD PROVIDE MANAGEMENT, TECHNICAL SERVICES, RESEARCH, AND EXPLORATION, FOR WHICH THEY WOULD RECEIVE OPERATING, CAPITAL MANAGEMENT, AND EXPLORATION FEES. FEES WOULD BE CALCULATED ON CENTS-PER-BARREL BASIS, BASED ON TOTAL ARAMCO PRODUCTION. COMPANY REPS DID NOT GIVE PRECISE RATE, BUT SAID FEES WOULD TOTAL MORE THAN FIFTEEN CENTS PER BARREL, INCLUDING SIX CENTS PER BARREL FOR EXPLORATION. FOR FIRST FIVE YEARS, COMPANY WOULD RECEIVE EXPLORATION FEE AUTOMATICALLY ON PRINCIPLE OF QUOTE DEEMED DISCOVERY. END QUOTE AFTER FIVE YEARS, AMOUNT OF RESERVES ACTUALLY DISCOVERED WOULD BE REVIEWED AND FEE WOULD BE RECOMPUTED ON CUMULATIVE BASIS.

5. FEES ARE BASED ON PRODUCTION ONLY UP TO MAXIMUM OF 8.5 MILLION B/D. SAUDIS UNWILLING TO PROVIDE FOR LARGER AMOUNT OF PRODUCTION IN VIEW OF PRIOR SAUDI POLITICAL DECISION TO RESTRICT OUTPUT TO 8.5 MILLION MAXIMUM. HOWEVER, COMPANY REPS SAID YAMANI AGREED THAT COMPANIES AND SAG WOULD NEGOTIATE FEE TO BE PAID ON FURTHER PRODUCTION IF SAUDIS MADE DECISION TO CARRY PRODUCTION BEYOND THAT LEVEL.

6. COMPANY REPS SAID PRODUCTION COULD QUICKLY BE RAISED TO ABOUT TEN MILLION B/D IF SAUDIS RELAXED THEIR CONSERVA-

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TIVE ASSESSMENTS OF FIELD CAPACITIES, WHICH UNDULY RESTRICT OUTPUT OF SEVERAL FIELDS ON CONSERVATION GROUNDS. TO GO TO THE ELEVEN MILLION B/D LEVEL WOULD TAKE ,IX MONTHS TO A YEAR. AS EXAMPLE OF SAUDI CONSERVATIVE ESTIMATES OF FIELD CAPACITY, HEDLUND CITED BERRI FIELD, WHICH HE SAID SAUDIS ARE HOLDING TO 650,000 B/D, BUT WHICH COULD PRODUCE 900,000 B/D.

7. UNDER PROPOSED AGREEMENT, RAS TANURA REFINERY WOULD BE TAKEN OVER 100 PERCENT BY SAUDIS AND PAID FOR AT NET BOOK VALUE. OLD LNG PROJECT WOULD BE CARRIED ON AS 50-50 VENTURE. LARGE NEW LNG PROJECTS SPONSORED BY SAUDIS WOULD BE PURELY SAUDI ENDEAVOR.

8. COMPANY REPRESENTATIVE REPEATEDLY INSISTED ON IMPORTANCE MAINTAINING STRICT CONFIDENTIALITY OF WHAT THEY TOLD DEPARTMENT, IN ORDER TO PREVENT SAUDIS FROM BEING ABLE

TO USE PUBLICITY AS EXCUSE TO REPUDIATE TENTATIVE AGREEMENT, AS THEY DID AFTER TENTATIVE ACCORD REACHED IN PANAMA CITY.

9. COMPANY REPS WILL GO TO SAUDI ARABIA FOR FURTHER TALKS WITH SAUDIS ABOUT SEPTEMBER 4. TALKS WILL BE HELD IN TAIF, BUT COMPANY REPS PLAN RESIDE IN JIDDA AND FLY BACK AND FORTH FOR SESSIONS. REQUEST YOU MAINTAIN CONTACT WITH COMPANY REPS AND IN PARTICULAR SEEK READ-OUT AT END OF TALKS. ROBINSON

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